

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58289

**OKANOGAN COUNTY PUBLIC
HOSPITAL DISTRICT NO. 3
DBA MID-VALLEY HOSPITAL**

Okanogan County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: June 6, 1997

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OKANOGAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 3
DBA MID-VALLEY HOSPITAL
Okanogan County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Board of Commissioners
Okanogan County Public Hospital District No. 3
Omak, Washington

We have audited the financial statements, as listed in the table of contents, of Okanogan County Public Hospital District No. 3, Okanogan County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the district's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the district's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed an instance of noncompliance that may materially affect the financial statements, the effects of which have been corrected in the district's financial statements. The material instance of noncompliance noted during our audit is disclosed in the accompanying Schedule of Findings.

We considered the instance of noncompliance in forming our opinion on whether the district's financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and the statutory provisions described in paragraph two of this report. This report does not affect our report dated June 21, 1996, on those financial statements.

Except for the material instance of noncompliance disclosed in the Schedule of Findings accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the district complied, in all material respects, with the provisions referred to in the second and third

paragraphs of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those provisions. Further, we noted an immaterial instance of noncompliance which is disclosed in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 21, 1996

OKANOGAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 3
DBA MID-VALLEY HOSPITAL
Okanogan County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The District Should Implement Internal Controls Over Accounts Receivable

During our audit, we noted the following weaknesses in the district's accounts receivable internal control system:

- a. Postings from the patient accounting system to the general ledger were incomplete and inappropriate. Clinic charges, receipts, and adjustments weren't tracked. The accounts receivable control accounts for the hospital and clinic subsidiary ledgers didn't reconcile. The cash control accounts had not been reconciled all year. At the auditor's request, the district spent six months reconciling accounts and making adjustments. Net income was ultimately reduced by \$500,000.
- b. Miscellaneous accounts in the amount of \$36,000 were not billed to the owing parties.
- c. Continuous and timely attempts were not made to collect outstanding hospital accounts receivable. As of December 31, 1995, the net days outstanding for hospital accounts receivable, calculated on an annual basis, was 102 days. The industry average is 57 days.
- d. Procedures were not established for proper approval and write-off of clinic accounts which were deemed uncollectible. Approximately \$20,000 worth of accounts receivable were written off without prior board approval.

These weaknesses increase the risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

Due to the turnover in the chief financial officer position and the district's conversion to a new computer accounting system, intended internal controls were not accomplished.

We recommend the district implement the following internal controls over their accounts receivable system:

- a. Design procedures to ensure that postings from the patient accounting system to the general ledger are proper.
- b. Establish and periodically reconcile control accounts.
- c. Implement policies and procedures to ensure that amounts owing are billed and collected.

- d. Obtain and document board approval prior to writing off accounts.

Auditee's Response

Daily postings from the patient accounting system are reviewed by patient accounting management and identified errors are corrected daily. Postings from the patient accounting system to the general ledger are reviewed and reconciled on a monthly basis.

General ledger control accounts are reconciled on a monthly basis.

The miscellaneous billing process has been computerized. Charges are entered throughout the month and billings are generated monthly.

All non-contractual adjustments are approved by the Chief Financial Officer. All bad debt accounts are approved for write-off by the board prior to disposition.

Auditor's Concluding Remarks

It appears that the hospital has implemented the necessary internal controls. We appreciate the hospital's timely and thorough response to our recommendations. We will review the improvements made to the accounts receivable system during our next audit.

2. The District Should Improve Internal Controls Over Fixed Assets

During our review of the district's fixed assets system, we noted that many fixed assets which were declared surplus and then sold or disposed of were not removed from the property records. In addition, a physical comparison of assets to those listed in the property records was not performed.

These internal control weaknesses increase the risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend the district implement procedures to remove surplused items from the property records as they are sold or disposed of. We further recommend the district reconcile property records to physical counts and investigate any losses.

Auditee's Response

A physical inventory of assets is planned for the summer of 1997. The physical inventory of assets will be reconciled to the general ledger. All assets identified as sold or disposed of will be removed from the asset records. All missing equipment will be investigated.

Auditor's Concluding Remarks

We appreciate the hospital's commitment to resolve the issues noted in the finding. We will review the hospital's progress in this area during our next audit.

We also wish to thank hospital officials and personnel for their assistance and cooperation throughout the audit.

OKANOGAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 3
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Okanogan County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The finding contained in the prior audit report was resolved as follows:

1. The District Should Comply With State Bid Laws

Resolution: *No exceptions with the state bid laws were noted during the 1995 audit.*

OKANOGAN COUNTY PUBLIC HOSPITAL DISTRICT NO. 3
DBA MID-VALLEY HOSPITAL
Okanogan County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Financial Statements

Board of Commissioners
Okanogan County Public Hospital District No. 3
Omak, Washington

We have audited the accompanying financial statements of Okanogan County Public Hospital District No. 3, Okanogan County, Washington, as of and for the fiscal years ended December 31, 1995 and 1994, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Okanogan County Public Hospital District No. 3 at December 31, 1995 and 1994, and the results of its operations and cash flows for the fiscal years then ended, in conformity with generally accepted accounting principles.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 21, 1996